

## Gulf International Services (GISS)

Recommendation	OUTPERFROM	Risk Rating	R-3
Share Price	QR37.25	Current Target Price	QR53.00
Implied Upside	42.3%	Old Target Price	QR81.00

### Lowering Estimates and Price Target

**Cutting price target to QR53 factoring in announced rig deployments and day rate reductions.** As implied in our note, "QNBFS Alert – Drilling Drives GISS' Weak 4Q2015", on February 3, 2016, GISS' stock is worth around QR32 based on its median historical P/E. However, we believe our DCF-based new price target of QR53 provides a better indication of the level at which the stock should trade once sentiment in the name improves. We do note GISS potentially stands to gain 100% market share of the Qatari offshore market (2 rigs) this year, which could allow for redeployment of idling rigs. Indexation of rig rates to oil could also act as a source of upside once prices recover.

### Highlights

- **We project a 17% YoY fall in 2016 revenue, along with a 41% fall in earnings.** While all segments should post yearly declines, the major contributor to this falloff is the drilling segment. After being subjected to a 15% cut in rig rates in 2Q2015, it is our understanding that rates were lowered by another 15% in November. On the fleet front: (1) an older **onshore rig** has been released from contract; (2) five **offshore rigs** have been idled, including Al-Doha, Al-Rayyan, Al-Jassra, Les-Hat and Msheireb. However, Al-Jassra was contracted by Dolphin in late-February, while Msheireb is expected back in service in January 2017. Halul is anticipated to start contributing from April; and (3) an **accommodation jack-up** (Zikreet) has been idled, while the Rumailah **lift boat** is not expected to resume operations all year. Al-Safliya (lift boat) should commence activity in 2Q2016. *Please see page 2 for a detailed breakdown of segment forecasts for 2016.*
- **1Q2016 preview: We project a dip in overall revenue to QR803.7mn vs. QR895.8mn in 4Q2015 and QR1.2bn in 1Q2015.** Net income should also decline to QR78.4mn; GISS reported around QR87.1mn in net income, on a normalized basis, in 4Q2015, which excluded a QR189mn loss from the damaged Rumailah lift boat less insurance claim received of QR91mn, and impairments of QR10mn. We note our 1Q2016 net income estimate does not include any losses from Rumailah, which is expected to be out of commission for all of 2016. The company posted a profit of QR355.7mn in 1Q2015. Drilling is the major driver behind the yearly and sequential declines in revenue and net income. In 1Q2016, on the onshore side, GDI-3 suffered a temporary fire-related stoppage, while GDI-8 is not expected to contribute until 2Q2016. In terms of the offshore fleet, Al-Doha went off-line on March 28, while Al-Jassra was redeployed in late-February. Three other rigs (Al-Rayyan, Les-Hat and Msheireb) remain in the shipyard and Halul will not come on-line until 2Q2016. Finally, Zikreet is off-line and Al-Safliya was under construction in 1Q2016. We note our forecasts remain subject to uncertainty given lack of detailed disclosures concerning the various business segments.

### Catalysts

- **While the investment case is compelling, recovery remains hinged on sustained recovery in oil prices and a resumption of confidence in company performance.** GISS also potentially stands to gain 100% market share of the offshore market (2 rigs) this year, which could allow for redeployment of idling rigs.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate GISS an Outperform with a revised price target of QR53.00.** The stock is currently trading at 2016 and 2017 P/E multiples of 14.5x and 12.6x, respectively. While our price target provides compelling upside, the stock remains in a "show me" mode.
- **Risks: Declining/volatile oil prices remain a substantial risk to regional equity prices.** Further decline in rig rates/rig utilizations could pressure the stock. GISS also faces concentration risk given its exposure to QP/affiliates.

### Key Financial Data and Estimates

	2014	2015	2016e	2017e
EPS (QR)	6.14	4.31	2.56	2.95
P/E (x)	6.1	8.6	14.5	12.6

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

### Key Data

Bloomberg Ticker	GISS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GISS.QA
ISIN	QA000A0Q6LH4
Sector	Industrials
52wk High/52wk Low (QR)	96.60/28.65
3-m Avg. Volume (000)	1,068.1
Mkt. Cap. (\$ bn/QR bn)	1.9/6.9
FO Limit* (%)	25.0
Current FO* (%)	6.8
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	(60.0)
Fiscal Year End	December 31

Source: Bloomberg (as of April 12, 2016), \*Qatar Exchange (as of April 11, 2016); Note: FO is foreign ownership

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## Lowering Estimates

We project a 17% YoY fall in 2016 revenue, along with a 41% fall in earnings. While all segments should post yearly declines, the major contributor to this falloff is the drilling segment. After being subjected to a 15% cut in rig rates in 2Q2015, it is our understanding that rates were lowered by another 15% in November. On the fleet front: (1) an older onshore rig has been released from contract; (2) five offshore rigs have been idled, including Al-Doha, Al-Rayyan, Al-Jassra, Les-Hat and Msheireb. However, Al-Jassra was contracted by Dolphin in late-February, while Msheireb is expected back in service in January 2017. Halul is anticipated to start contributing from April; and (3) an accommodation jack-up (Zikreet) has been idled, while the Rumailah lift boat is not expected to resume operations all year. Al-Safliya (lift boat) should commence activity in 2Q2016.

### Quarterly Estimates

In QR '000 Except Otherwise Noted	1Q2015	2Q2015	3Q2015	4Q2015	2015	1Q2016	2Q2016	3Q2016	4Q2016	2016
<b>Total Revenue</b>	<b>1,209,930</b>	<b>1,084,555</b>	<b>973,933</b>	<b>895,832</b>	<b>4,164,250</b>	<b>803,737</b>	<b>868,125</b>	<b>884,242</b>	<b>902,512</b>	<b>3,458,616</b>
Insurance	166,773	168,386	166,642	183,820	685,621	161,770	163,334	161,643	178,305	665,052
Aviation	162,637	164,417	151,156	150,126	628,336	146,348	147,215	147,215	147,806	588,584
Catering	311,411	249,079	221,049	224,110	1,005,649	246,859	247,438	247,818	248,834	990,950
Drilling	569,109	502,673	435,086	337,776	1,844,644	248,760	310,137	327,566	327,566	1,214,030
<b>COGS</b>	<b>783,272</b>	<b>783,419</b>	<b>687,981</b>	<b>699,250</b>	<b>2,953,922</b>	<b>671,436</b>	<b>678,189</b>	<b>679,276</b>	<b>699,351</b>	<b>2,728,252</b>
Insurance	126,692	173,611	135,648	147,434	583,385	139,122	140,468	139,013	153,343	571,945
Aviation	104,253	100,771	114,280	82,131	401,435	96,589	97,162	97,162	97,552	388,466
Catering	257,490	226,569	202,439	199,661	886,159	219,705	220,220	220,558	221,463	881,946
Drilling	294,837	282,468	235,614	270,024	1,082,943	216,019	220,340	222,543	226,994	885,896
<b>Gross Profit</b>	<b>426,658</b>	<b>301,136</b>	<b>285,952</b>	<b>196,582</b>	<b>1,210,328</b>	<b>132,302</b>	<b>189,936</b>	<b>204,966</b>	<b>203,161</b>	<b>730,365</b>
<b>GM %</b>	<b>35.3%</b>	<b>27.8%</b>	<b>29.4%</b>	<b>21.9%</b>	<b>29.1%</b>	<b>16.5%</b>	<b>21.9%</b>	<b>23.2%</b>	<b>22.5%</b>	<b>21.1%</b>
Insurance GM %	24.0%	-3.1%	18.6%	19.8%	14.9%	14.0%	14.0%	14.0%	14.0%	14.0%
Aviation GM %	35.9%	38.7%	24.4%	45.3%	36.1%	34.0%	34.0%	34.0%	34.0%	34.0%
Catering GM %	17.3%	9.0%	8.4%	10.9%	11.9%	11.0%	11.0%	11.0%	11.0%	11.0%
Drilling GM %	48.2%	43.8%	45.8%	20.1%	41.3%	13.2%	29.0%	32.1%	30.7%	27.0%
<b>Gross Profit Contribution</b>										
Insurance	9.4%	-1.7%	10.8%	18.5%	8.4%	17.1%	12.0%	11.0%	12.3%	12.7%
Aviation	13.7%	21.1%	12.9%	34.6%	18.7%	37.6%	26.4%	24.4%	24.7%	27.4%
Catering	12.6%	7.5%	6.5%	12.4%	9.9%	20.5%	14.3%	13.3%	13.5%	14.9%
Drilling	64.3%	73.1%	69.8%	34.5%	62.9%	24.7%	47.3%	51.2%	49.5%	44.9%
<b>Net Income</b>	<b>355,717</b>	<b>249,689</b>	<b>216,864</b>	<b>(20,842)</b>	<b>801,428</b>	<b>78,398</b>	<b>125,329</b>	<b>137,327</b>	<b>135,473</b>	<b>476,527</b>
<b>NM %</b>	<b>29.4%</b>	<b>23.0%</b>	<b>22.3%</b>	<b>-2.3%</b>	<b>19.2%</b>	<b>9.8%</b>	<b>14.4%</b>	<b>15.5%</b>	<b>15.0%</b>	<b>13.8%</b>
Insurance	54,573	11,985	30,403	15,413	112,374	24,978	25,220	24,959	27,532	102,689
Insurance NM %	32.7%	7.1%	18.2%	8.4%	16.4%	15.4%	15.4%	15.4%	15.4%	15.4%
Aviation	51,386	57,270	49,699	34,855	193,210	45,618	45,888	45,888	46,072	183,467
Aviation NM %	31.6%	34.8%	32.9%	23.2%	30.7%	31.2%	31.2%	31.2%	31.2%	31.2%
Catering	40,518	33,277	18,876	22,913	115,584	26,414	26,476	26,517	26,626	106,034
Catering NM %	13.0%	13.4%	8.5%	10.2%	11.5%	10.7%	10.7%	10.7%	10.7%	10.7%
Drilling	221,801	159,460	128,505	(78,599)	431,167	(6,783)	40,522	52,978	48,527	135,244
Drilling NM %	39.0%	31.7%	29.5%	-23.3%	23.4%	-2.7%	13.1%	16.2%	14.8%	11.1%
Share of Profits from Other JVs	-	-	-	-	-	-	-	-	-	-
Gains from Business Combinations	-	-	-	-	-	-	-	-	-	-
Unallocated (Plug)	(12,561)	(12,303)	(10,619)	(15,424)	(50,907)	(11,830)	(12,778)	(13,015)	(13,284)	(50,907)
<b>EPS (QR)</b>	<b>1.91</b>	<b>1.34</b>	<b>1.17</b>	<b>(0.11)</b>	<b>4.31</b>	<b>0.42</b>	<b>0.67</b>	<b>0.74</b>	<b>0.73</b>	<b>2.56</b>
<b>EBITDA</b>	<b>503,036</b>	<b>391,936</b>	<b>356,355</b>	<b>126,840</b>	<b>1,378,167</b>	<b>224,179</b>	<b>289,855</b>	<b>302,899</b>	<b>301,439</b>	<b>1,118,372</b>
<b>EBITDA Margin %</b>	<b>41.6%</b>	<b>36.1%</b>	<b>36.6%</b>	<b>14.2%</b>	<b>33.1%</b>	<b>27.9%</b>	<b>33.4%</b>	<b>34.3%</b>	<b>33.4%</b>	<b>32.3%</b>

Source: Company data, QNBFS estimates

## Detailed Financial Statements

### Income Statement

In QR mn	FY2014	FY2015	FY2016e	FY2017e	FY2018e
<b>Revenue</b>	<b>3,906</b>	<b>4,164</b>	<b>3,459</b>	<b>3,672</b>	<b>4,314</b>
Gulf Drilling International (GDI)*	1,473	1,845	1,214	1,347	1,907
Gulf Helicopters Company (GHC)	644	628	589	627	667
Amwaj Catering Company (ACS)	1,056	1,006	991	1,016	1,041
Al Koot Insurance & Reinsurance (AKIR)	733	686	665	682	699
COGS	2,710	2,954	2,728	2,852	2,968
<b>Gross Profit</b>	<b>1,196</b>	<b>1,210</b>	<b>730</b>	<b>820</b>	<b>1,346</b>
SG&A	217	267	233	250	257
Total Other Income	89	(84)	42	42	42
Net Finance Income (Expense)	(27)	(58)	(63)	(64)	(65)
One-Offs/Non-Recurring Items	269	0	0	0	0
Income from JVs	100	0	0	0	0
<b>Net Income</b>	<b>1,410</b>	<b>801</b>	<b>477</b>	<b>548</b>	<b>1,067</b>
<b>EBITDA</b>	<b>1,549</b>	<b>1,378</b>	<b>1,118</b>	<b>1,209</b>	<b>1,732</b>
<b>DPS (QR)</b>	<b>5.50</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.50</b>

Source: Company data, QNBFS estimates; Note: EPS based on current number of shares, \*GDI results consolidated from May 1, 2014

### Balance Sheet

In QR mn	FY2014	FY2015e	FY2016e	FY2017e	FY2018e
<b>Current Assets</b>					
Cash & Cash Equivalents	1,087	961	1,312	1,976	2,965
Investments Held for Trading	218	206	206	206	206
Insurance Contract Receivables & A/R	946	1,170	948	997	1,122
Due From Related Parties	634	598	598	598	598
Inventories	203	222	196	205	213
<b>Total Current Assets</b>	<b>3,089</b>	<b>3,158</b>	<b>3,261</b>	<b>3,983</b>	<b>5,105</b>
<b>Non-Current Assets</b>					
Available for Sale Investments	300	314	314	314	314
Held to Maturity Investments	85	86	86	86	86
Investment in Joint Ventures	-	-	-	-	-
Investment Properties	1	-	-	-	-
Goodwill	313	307	307	307	307
Property, Plant & Equipment	7,037	7,364	7,592	7,373	7,225
<b>Non-Current Assets</b>	<b>7,738</b>	<b>8,071</b>	<b>8,299</b>	<b>8,079</b>	<b>7,932</b>
<b>Total Assets</b>	<b>10,826</b>	<b>11,229</b>	<b>11,559</b>	<b>12,062</b>	<b>13,037</b>
<b>Current Liabilities</b>					
Short-Term Debt	909	1,467	1,467	1,467	1,467
Insurance Payables & Accounts Payable	1,719	2,050	1,893	1,969	2,031
Due to Related Parties	11	20	20	20	20
<b>Current Liabilities</b>	<b>2,638</b>	<b>3,536</b>	<b>3,380</b>	<b>3,455</b>	<b>3,517</b>
<b>Non-Current Liabilities</b>					
Employees End of Service Benefits	64	75	75	75	75
Long-Term Debt	3,946	3,690	3,887	3,951	4,030
Non-Current Liabilities	4,010	3,765	3,961	4,026	4,105
<b>Total Liabilities</b>	<b>6,649</b>	<b>7,301</b>	<b>7,341</b>	<b>7,481</b>	<b>7,622</b>
<b>Shareholders' Equity</b>					
<b>Total Shareholders' Equity</b>	<b>4,178</b>	<b>3,928</b>	<b>4,219</b>	<b>4,581</b>	<b>5,415</b>
<b>Liabilities &amp; Shareholders' Equity</b>	<b>10,826</b>	<b>11,229</b>	<b>11,559</b>	<b>12,062</b>	<b>13,037</b>

Source: Company data, QNBFS estimates

### Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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